Economic Trends

While economic conditions remain weak in the province, there are signs of stabilization in some major indicators. Employment continues to gain traction, sharp declines in earnings appear to be abating, the housing market is showing signs of life while manufacturing and exports have improved. This month's inFocus looks at how the Alberta labour market has fared during the downturn.

Key Indicators

Seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	September	2,264	-2.0%
Unemployment Rate	September	8.5%	+1.9 p.p.
CPI Inflation (unadjusted)	September	0.5%	0.8 p.p.
Retail Sales	August	$6.1 B	-3.9%
Housing Starts (annualized)	September	28,907	-21.6%
Rigs Drilling (unadjusted)	September	80	29.0%
Manufacturing Shipments	August	$5.2 B	-7.6%
Exports (unadjusted)	August	$7.0 B	-14.3%

Source: Statistics Canada, CAODC, CMHC. p.p.= percentage points.

Alberta Household Sector

Employment improves

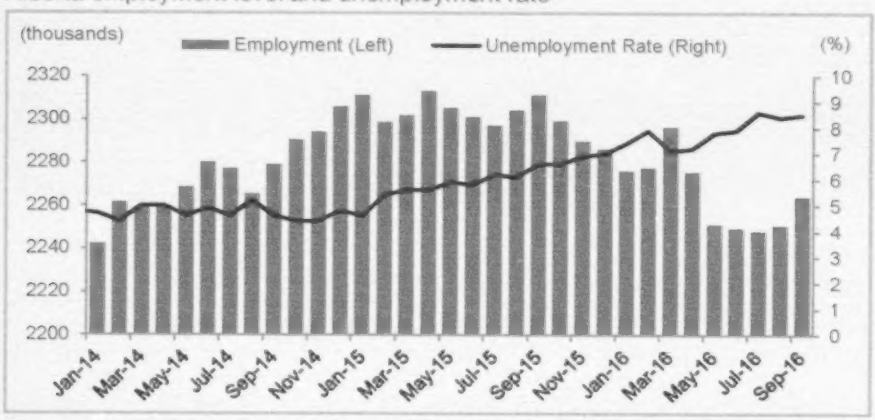
Alberta's labour market is showing some encouraging signs, boosted by employment gains. Employment climbed for the second straight month in September, up 13,300 jobs month-over-month (m/m), recouping some of the losses from earlier this year. While the employment gains are a positive sign, the labour market is still facing some challenges. The unemployment rate remains elevated (Chart 1), Albertans on regular employment insurance (EI) benefits are near record levels and job vacancies are at historic lows.

Decline in earnings ease

The decline in average weekly earnings (AWE) appears to be subsiding. AWE has hovered around $1,120 for the last three months, and the year-over-year (y/y) decline has eased significantly from 4.3% in May to just 0.5% in August. The improvement in earnings has been most pronounced in the goods producing sector, supported by mining and oil and gas extraction (11% y/y in August), and relative stability in the manufacturing and construction industry. On the other hand, service sector earnings remain weaker than last year (-1.2% y/y) with wholesale and transportation still showing significant weakness. Despite the drop in earnings so far this year, Alberta continues to have the highest AWE in the country, well above the national average of $960.

Chart 1: Alberta adds jobs but unemployment still elevated

Alberta employment level and unemployment rate



Sources: Statistics Canada and Alberta Treasury Board and Finance

Housing market picking up

Heading into the fall, tentative signs point to improvement in the housing market. After dipping to a five-year low in August, housing starts rebounded to 28,907 units (annualized) in September, posting the strongest monthly increase in the last two years and regaining some of the losses from earlier this year. Existing home sales also picked up 3.2% m/m in September, with both Edmonton and Calgary posting strong increases. Although recent improvements are encouraging, housing activity remains well below last year's level. Housing starts and existing home sales were down 38.0% and 10.6% year-to-date, respectively. Despite this, house prices have held up quite well with both new and resale housing falling less than 0.5% year-to-date.

Retail sales a challenge

Concerns about the economy are keeping retail sales weak in Alberta.

Alberta retail sales fell in the last four months ending in August at the lowest level since June 2013. On a year-over-year basis, declines in retail sales have accelerated since May 2016. While spending has declined on a variety of consumer goods, big ticket items have been particularly hard hit with significant reductions in electronics and appliances (-6.2% y/y), home furnishings (-3.6% y/y) and a small reduction in motor vehicle sales (-0.8% y/y).

Alberta Business Sector

Oil price improvement props up drilling

Prospects of an output cut by the Organization of the Petroleum Exporting Countries (OPEC) combined with tighter U.S. oil inventories provided some support to oil prices in October. The price of WTI averaged almost US$50/bbl after hovering around US$45/bbl in September. Meanwhile, oil production has been mostly restored following the Wood Buffalo wildfire, alleviating concerns about supply from Alberta's oil sands. As a result, the light-heavy differential widened, returning to around US$14/bbl. With the increase in price, Alberta's drilling activity continues to improve as rigs drilling counts edged up for the fifth consecutive month in October (+28% m/m) but remain well below pre-recession levels.

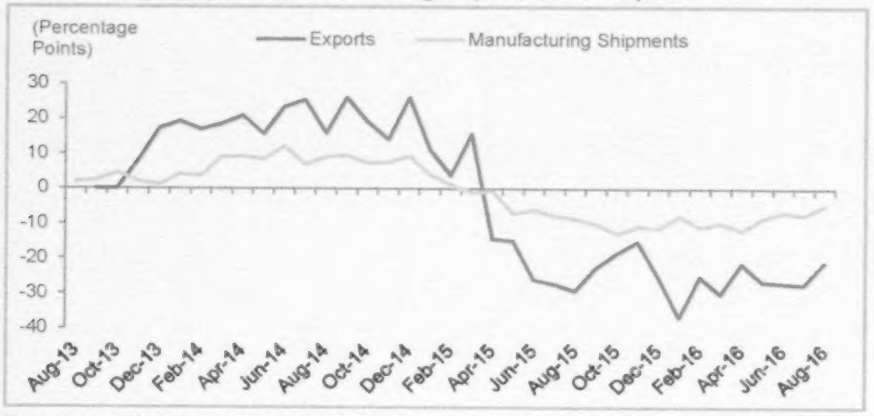
Declines in manufacturing shipments and exports ease

Alberta's business output continues to recover in line with the improvements in oil prices and drilling activity (Chart 2). Manufacturing shipments grew 2.2% m/m in August, reflecting higher shipments in major categories such as food (+2.2% m/m), petroleum and coal (+1.3% m/m) and chemical products (+4.2% m/m), coupled with gains in other sectors. While manufacturing shipments were still down 7.6% y/y, the rate of decline has eased significantly. Meanwhile, the value of Alberta's exports jumped 14.7% m/m to reach $7 billion in August. Similarly, the year-over-year decline in exports has slowed sharply to 14.3% compared to reductions of over 20% earlier this year.

Private sector investment reductions outweigh public sector gains

The economic slowdown continues to weigh on the province's non-residential building investment. In the third quarter of 2016, Alberta's non-residential building investment fell to $2.5 billion and was down 10% from the previous year. The pullback in private sector investment, in both commercial (-17% y/y) and industrial buildings (-37% y/y), has more than offset the gains in institutional and government investment (34% y/y), with the latter trending upward since the third quarter of 2014.

Chart 2: Manufacturing shipments, export declines easing
Year-over-year growth in manufacturing shipments and exports



Sources: Statistics Canada and Alberta Treasury Board and Finance

Global Economy

Canada/Europe agree to trade

After some turbulence, the Comprehensive Economic and Trade Agreement (CETA) between the European Union (EU) and Canada was agreed to in principle. CETA will provide Canada with improved access to a 28-country market which generates $20 trillion in annual economic activity. The agreement will now move forward for ratification in both Canada and Europe. From 2011 to 2015, Alberta exported about $1.4 billion annually to the EU.

Financial sector uncertainty in Europe

The problems surrounding Germany's Deutsche Bank and numerous other Italian banks are stoking fears of a new financial crisis. Many of these banks are having a tough time adjusting to stricter capital requirements, an ultra-low interest rate environment and in the case of the Deutsche Bank, a significant fine by the US Department of Justice related to its role in the last financial crisis. Despite reforms to address these balance sheet woes, there is still uncertainty facing the financial sector in Europe.

Global growth moderate

Following downward revisions to its forecast for global growth, in the last six quarters, the International Monetary Fund (IMF) left its global growth outlook unchanged at 3.1% for 2016. The 2016 outlook also lowered its outlook for the Canadian economy to 1.2% from 1.4% for this year. Similarly, the Bank of Canada downgraded its forecast for the Canadian economy for 2016 to 1.1% from 1.3% due to a weaker outlook for exports and the housing market over the near-term.

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inFocus

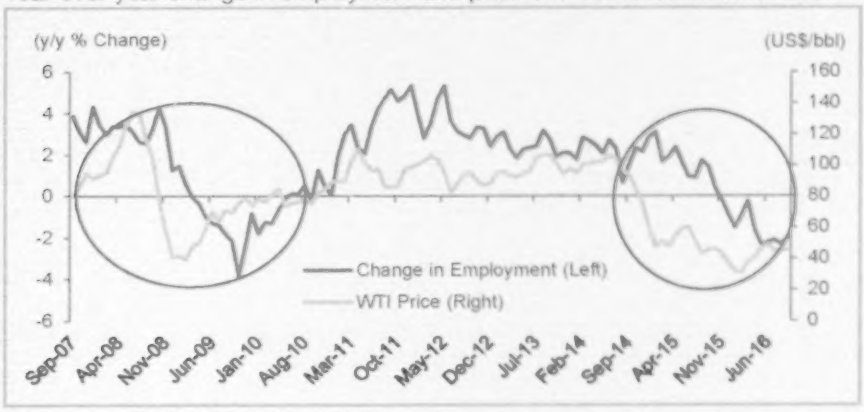
Alberta's job market during the downturn

During the current oil price shock and economic downturn, Alberta's labour market has experienced job losses and increasing unemployment. More recently, however, the labour market has shown some early signs of stability. This inFocus looks at Alberta's labour market conditions during the current downturn.

Labour market initially shielded

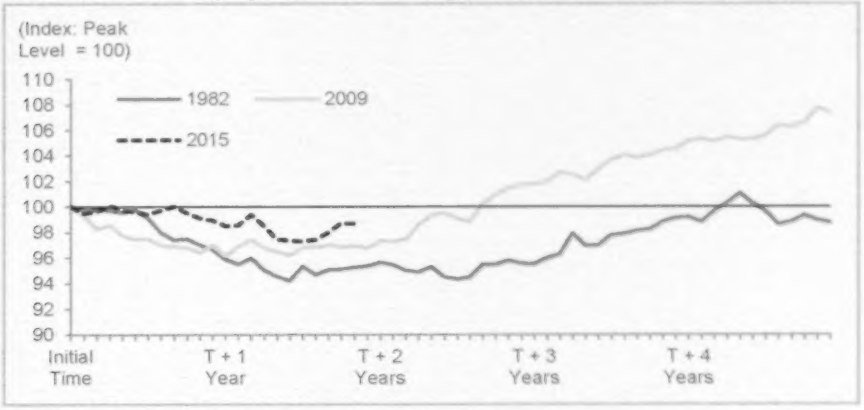
The province's previously booming labour market initially withstood the decline in oil prices, which began sliding in mid-2014. Strong job growth in late 2014 provided momentum heading into 2015, and employment gains in the services sector initially helped cushion losses in energy-related sectors. Some businesses used the slowdown to fill existing vacancies and on-going projects supporting employment. In addition, job losses occurred in Alberta's large nonresident population, including fly-in/fly-out and camp workers, which impacted employment in other provinces and limited the impact on Alberta's labour market. As a result, employment held fairly steady for the first three quarters of 2015. Job growth steadily declined, however, and by November employment fell below 2014 levels (Chart 1). Measured from the pre-recession peak, employment losses so far in this downturn have been less severe than the downturns in either the early 1980s or in 2009 (Chart 2).

Chart 1: Employment decline lags oil prices
Year-over-year change in employment and price of West Texas Intermediate



Source: Statistics Canada

Chart 2: Employment declines from peak less pronounced in current recession
Index of Alberta employment levels during previous economic slowdowns



Source: Statistics Canada

Energy sector employment hit

With the downward spiral in oil prices, energy and related sectors have experienced significant job losses. After peaking in September 2014, employment in mining, oil and gas extraction fell almost 56,000 by July 2016. Manufacturing, which was impacted by the downturn in energy activity in North America, experienced peak losses of around 37,000. Services closely linked to the energy sector like transportation and warehousing and professional, scientific and technical services have also experienced job losses. However, momentum in other sectors kept overall employment rising until the end of 2014.

Energy weakness spreads

As the impact of the slowdown in the energy sector spread to most other sectors of the economy, activity in the province slowed. Employment losses became more broad-based across sectors, including the construction sector which was initially shielded by ongoing projects and public infrastructure spending. As a result,

Alberta Government

October 2016
Treasury Board and Finance
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from January 2015 to June 2016, employment fell by over 60,000, or 2.7%, from the January 2015 level.

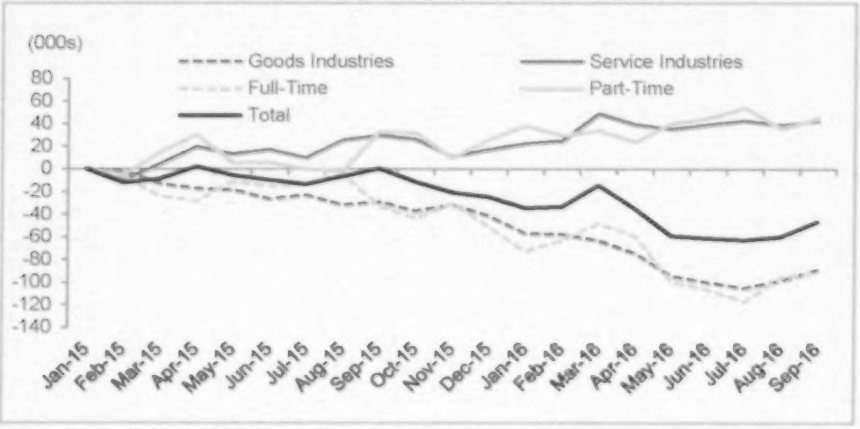
Goods sector experiences largest decline

In general, job losses have been concentrated in full-time, goods sector industries (Chart 3). Between January 2015 and June 2016, full-time employment receded by about 107,000, with the job losses mainly goods industries. The part-time gains over the same period (+45,100) have been overwhelmingly concentrated in services like retail trade, tourism and accommodation, and finance and real estate. The shift in the composition of employment has hurt overall earnings in Alberta more than indicated by overall declines in jobs.

The impact on unemployment

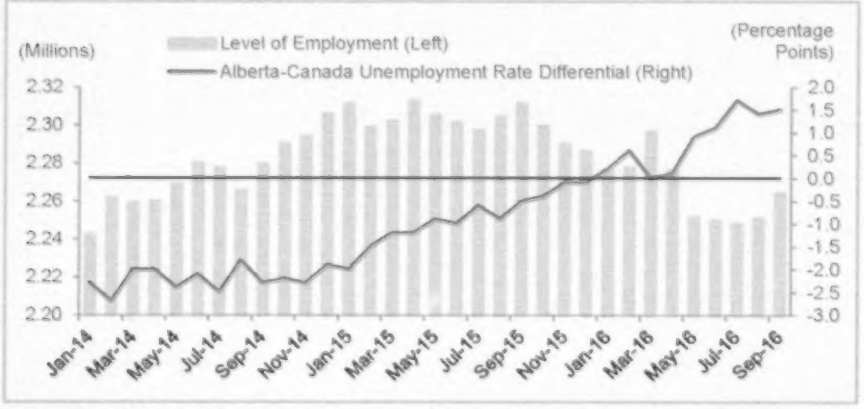
The drop in employment along with fewer job openings has led to rising unemployment. The number of unemployed in Alberta increased from an average of 112,400 in 2014 to 211,600 by September 2016. After rising above the national average for the first time in twenty years at the start of 2016, the unemployment rate climbed to a 20-year high in July at 8.6%, and currently stands at 8.5% (Chart 4). This has led to increased use of the Employment Insurance (EI) program. Total claims have exceeded 30,000 since October 2015. In addition, finding a job has become more difficult, as Alberta's unemployment-to-job-vacancies ratio increased from 2.3 in July 2014 to 7.6 as of June 2016, indicating that there were about three times more workers competing per available job.

Chart 3: Employment losses concentrated in full-time and goods sector
Change in Alberta employment by category since January 2015



Source: Statistics Canada

Chart 4: Alberta's unemployment rate rises above the national average
Level of Alberta employment and Canada/Alberta unemployment rate differential



Source: Statistics Canada

Rise in involuntary part-time

Declining employment has also led to an increase in involuntary part-time employment. Involuntary part-time work tends to rise alongside unemployment, as job seekers are compelled to take part-time jobs during economic downturns. The number of involuntary part-time workers in Alberta, or those who would prefer full-time jobs, has risen by over 27,000 since December 2014. Adding involuntary part-time workers to unemployment offers an alternative measure of labour market underutilization. This combined underemployment rate is up from 6% in January 2015 to 10.3% as of September 2016.

Some signs of stability emerge

Although Alberta's current labour market downturn has been significant, there are some early signs of stability emerging. Job losses eased by June 2016. The level of employment has increased over the past two months by about 16,000, with the private sector adding almost 7,000 jobs. The unemployment rate remains elevated, however, as increases in jobs has not kept pace with the number of people looking for work.

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